

Message Text

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ACTION EUR-12

INFO OCT-01 EA-06 ISO-00 AID-05 CEA-01 CIAE-00 COME-00

EB-07 FRB-03 INR-07 NSAE-00 CIEP-01 SP-02 STR-04

TRSE-00 LAB-04 SIL-01 SAM-01 OMB-01 XMB-02 L-02 PA-01

PRS-01 USIA-06 /068 W

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R 141900Z MAY 75

FM USMISSION EC BRUSSELS

TO SECSTATE WASHDC 8866

INFO ALL EC CAPITALS 659

AMEMBASSY OTTAWA

AMEMBASSY TOKYO

LIMITED OFFICIAL USE SECTION 1 OF 2 EC BRUSSELS 4312

PASS TREASURY AND EXIMBANK

E.O. 11652: NA

TAGS: EFIN ETRD EEC

SUBJECT: EXPORT CREDIT GENTLEMEN'S AGREEMENT - RESULTS OF
MAY 12-13 PRINCIPALS' MEETING

1. BEGIN SUMMARY: THE PRINCIPALS' MEETING SET LIMITS ON OFFICIAL EXPORT CREDITS FAILED TO AGREE TO EITHER THE COMPREHENSIVE DRAFT GENTLEMEN'S AGREEMENT OR A MORE LIMITED WATERED-DOWN COMPROMISE PROPOSAL. ALL PARTICIPANTS, EXCEPT JAPAN AND FRANCE, WERE WILLING TO ADOPT THE COMPROMISE PROPOSAL. AFTER BILATERAL CONSULTATIONS ON THIS PROPOSAL, PARTICIPANTS WILL DECIDE WHETHER OR NOT TO RESUME NEGOTIATIONS. END SUMMARY.

2. THE US, EC-NINE AND JAPAN MET AT THE PRINCIPAL LEVEL IN BRUSSELS MAY 12 AND 13 TO NEGOTIATE A COMPREHENSIVE DRAFT GENTLEMEN'S AGREEMENT TO LIMIT EXPORT CREDIT COMPETITION. EVEN THOUGH ALL PARTIES DEMONSTRATED AN EFFORT TO REACH AGREEMENT, A NUMBER OF MAJOR SUBSTANTIVE AND TECHNICAL PROBLEMS WERE NOT
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RESOLVED. MAJOR POINTS AT ISSUE WERE (1) MINIMUM INTEREST

RATES; (2) MAXIMUM LENGTHS OF CREDITS; (3) COVERAGE OF MIXED AID/COMMERCIAL CREDITS; AND (4) LARGE PROJECT EXEMPTIONS. FRANCE AND JAPAN DID NOT WANT TO RAISE THE MINIMUM INTEREST RATE OVER THE 7.5 PERCENT AGREED UPON IN THE WASHINGTON MINUTE OF OCTOBER 1974. FRANCE ALSO OPPOSED THE US PROPOSAL OF EXTENDING MATURITY LIMITS WITH THE PENALTY OF HAVING TO CHARGE HIGHER INTEREST RATES. THERE WAS ALSO LITTLE PROGRESS IN RESOLVING THE OUTSTANDING DEFINITIONAL PROBLEMS IN THE DRAFT AGREEMENT.

3. US-PROPOSED COMPROMISE: IN ORDER TO BREAK THE DEAD-LOCK IN THE NEGOTIATIONS, THE US PROPOSED A CONSULTATIVE PROCEDURE FOR LOANS WITH MATURITIES OF OVER 5 YEARS FOR EXPORTS TO WEALTHY COUNTRIES (PER CAPITA GNP OVER \$3000), OVER 8.5 YEARS FOR INTERMEDIATE COUNTRIES (PER CAPITAL GNP \$1000 TO \$3000) AND OVER 10 YEARS FOR DEVELOPING COUNTRIES (PER CAPITA GNP UNDER \$1000). THESE AMOUNTS WOULD SERVE AS TRIGGER POINTS FOR CONSULTATION. MINIMUM INTEREST RATES WOULD BE 8.5 PERCENT FOR WEALTHY COUNTRIES, AND 8 PERCENT FOR INTERMEDIATE COUNTRIES AND DEVELOPING COUNTRIES. IF A PARTICIPANT EXCEEDED THESE LIMITS, IT WOULD AGREE TO NOTIFY AND OFFER TO CONSULT WITH THE OTHER PARTIES. SEVERAL PARTICIPANTS WANTED TO DESIGNATE SPECIFIC MINIMUM RATES. FRANCE WANTED TO LIMIT THE MAXIMUM MATURITY PERIOD. THE FRENCH AND JAPANESE DELEGATION OBJECTED TO THE INTEREST RATE AND IMMEDIATE CREDIT PROVISIONS OF THE US COMPROMISE PROPOSAL.

4. FRG PROPOSAL: THE FRG DELEGATE TABLED A COMPROMISE SOLUTION WHICH DELEGATIONS AGREED TO DISCUSS BILATERALLY. COPIES OF THIS DRAFT ARE BEING FURNISHED TO ALL ADDRESSEES. THE MAIN PROVISIONS FOLLOW:

A. MATURITIES: PARTIES WOULD GIVE 30 DAYS ADVANCE NOTICE AND OFFER TO CONSULT ON ANY CREDIT OF MORE THAN 5 YEARS FOR WEALTHY COUNTRIES (PER CAPITA GNP OVER \$3000); 8.5 YEARS FOR INTERMEDIATE COUNTRIES (PER CAPITAL GNP \$1000 TO \$3000); AND 10 YEARS FOR DEVELOPING COUNTRIES (PER CAPITA GNP LESS THAN \$1,000).

B. MINIMUM INTEREST RATE (BLOW WHICH PARTICIPANTS WOULD NOT LIMITED OFFICIAL USE

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LEND): WEALTHY COUNTRIES' RATE WOULD BE:: 2-5 YEAR MATURITIES, 8 PERCENT; 5-8.5 YEARS, 9 PERCENT; 8.5 TO 10 YEARS, 9 PERCENT; 10-12 YEARS, 10 PERCENT; AND OVER 12 YEARS, 10 PERCENT. THE INTEREST RATES FOR INTERMEDIATE COUNTRIES WOULD BE 7.5 PERCENT FOR 2 TO 5 YEARS MATURITIES; 7.75 PERCENT FOR 5 TO 8.5 YEARS; 8.5 PERCENT FOR 8.5 TO 10 YEARS; 9 PERCENT FOR 10-12 YEARS; AND OVER 12 YEARS, 10 PERCENT. DEVELOPING COUNTRIES WOULD HAVE THE FOLLOWING RATE SCHEDULE: 2-5 YEARS MATURITIES, 7.5 PERCENT;

5-8.5 YEARS, 7.75 PERCENT; 8.5-10 YEARS, 7.75 PERCENT;
10-12 YEARS, 8.5 PERCENT; AND OVER 12 YEARS, 9.5 PERCENT.

C. LARGE PROJECT EXCEPTIONS: FOR PROJECTS HAVING AN IMPORT
VALUE OF MORE THAN 100 MILLION SDR, THE INTEREST RATE MINIMA
FOR CERTAIN MATURITY CATEGORIES WOULD BE REDUCED. THE INTER-
EST RATE FOR LARGE PROJECTS IN WEALTHY COUNTRIES COULD
BE REDUCED TO 8.5 PERCENT FOR THE 5-8.5 YEAR PERIOD. FOR
INTERMEDIATE AND DEVELOPING COUNTRIES, AFTER CONSULTATION,
THE RATE COULD BE REDUCED TO 7.5 PERCENT FOR ONLY POOR COUNTRIES, TO 7.5 PER-
CENT FOR
8.5-10 YEARS. INTEREST RATES MAY ALSO BE REDUCED TO 7.75
PERCENT FOR INTERMEDIATE COUNTRIES FROM THE 8.5 TO 10
YEAR AND 10-12 YEAR MATURITY PERIODS AND FOR DEVELOPING
COUNTRIES FOR THE 10-12 YEAR PERIOD.

D. AID CREDITS: PARTICIPANTS WOULD AGREE TO CONSULT
ON ALL AID CREDITS WITH LESS THAN A 25 PERCENT GRANT ELEMENT
ACCORDING TO DAC CRITERIA.

E. MINIMUM DOWN-PAYMENTS: WEALTHY COUNTRIES WOULD
HAVE A MINIMUM DOWN PAYMENT OF 20 PERCENT AND INTERMEDIATE
AND DEVELOPING COUNTRIES, 15 PERCENT.

F. LOCAL COSTS: THESE WOULD BE IN ACCORDANCE TO THE
TERMS ARGUED IN THE OECD.

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ACTION EUR-12

INFO OCT-01 EA-06 ISO-00 AID-05 CEA-01 CIAE-00 COME-00

EB-07 FRB-03 INR-07 NSAE-00 CIEP-01 SP-02 STR-04

TRSE-00 LAB-04 SIL-01 SAM-01 OMB-01 XMB-02 L-02 PA-01

PRS-01 USIA-06 /068 W

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R 141900Z MAY 75

FM USMISSION EC BRUSSELS

TO SECSTATE WASHDC 8867

INFO ALL EC CAPITALS 660

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G. DEFINITIONS: THE MEETING WAS UNABLE TO RESOLVE A NUMBER OF TECHNICAL MATTERS, SUCH AS A DEFINITION FOR INTEREST RATES. THE DRAFT AGREEMENT WOULD BE USED AS A BASIS FOR FURTHER DISCUSSIONS TO DRAW UP TECHNICAL DEFINITION.

4. THE NEXT STEP CALLS FOR BILATERAL CONSULTATIONS AMONG THE PARTIES TO DETERMINE TO WHAT EXTENT THE COMPROMISE CONSTITUTES A BASIS FOR FURTHER NEGOTIATION. WHILE NOT NECESSARILY ACCEPTING ALL OF THE PROVISIONS OF THE FRG PROPOSAL, THE US DEL INDICATED THAT IT CONSIDERED THE FRG COMPROMISE PROPOSAL TO BE A MINIMUM ACCEPTABLE PACKAGE. ALTHOUGH IT ONLY WOULD RAISE MINIMUM INTEREST RATES A MARGINAL AMOUNT, THIS PROPOSAL COULD SERVE AS A BASIS FOR SUBSEQUENT EFFORTS TO TIGHTEN FURTHER RESTRICTIONS ON EXPORT CREDITS. IF THERE ARE REASONABLE PROSPECTS FOR REACHING AGREEMENT ON THIS MINIMUM PACKAGE, PARTICIPANTS AGREED TO HOLDING ANOTHER MEETING AT THE PRINCIPALS LEVEL IN THE NEAR FUTURE.
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THE US DEL SUGGESTED MAY 26-27 FOR THE NEXT MEETING, WHICH WOULD TIE IN WITH THE OECD MINISTERIAL MEETING, OR THE FIRST WEEK IN JUNE, POSSIBLY IN WASHINGTON. THE BRITISH INDICATED, HOWEVER, THAT THEIR JUNE 5 REFERENDUM MAY INTERFERE WITH THESE PROPOSED DATES.

5. ASSESSMENT: THE FRENCH WERE INTRANSIGENT IN THEIR OPPOSITION TO HIGHER INTEREST RATES AND A RESTRICTIVE DEFINITION OF MIXED CREDITS. FOR THE FIRST TIME THE OTHER EC MEMBER STATES OPENLY APPLIED PRESSURE ON THE FRENCH DELEGATION TO COMPROMISE BUT THIS WAS TO NO AVAIL. THE JAPANESE DELEGATION INDICATED MORE FLEXIBILITY THAN THE FRENCH BUT REFUSED TO AGREE TO THE FRG COMPROMISE AT THIS TIME. THUS, THE FRENCH POSITION CONSTITUTES ONE OF THE MAJOR OBSTACLES.

6. THIS MESSAGE WAS DRAFTED AFTER UNDER SECRETARY BENNETT AND CHAIRMAN CASEY HAD DEPARTED. GREENWALD

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: EXPORTS, CREDIT, TRADE AGREEMENTS
Control Number: n/a
Copy: SINGLE
Draft Date: 14 MAY 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GolinoFR
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975ECBRU04312
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750169-0814
From: EC BRUSSELS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750550/aaaabtcj.tel
Line Count: 219
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: GolinoFR
Review Comment: n/a
Review Content Flags:
Review Date: 09 APR 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <09 APR 2003 by Izenbel0>; APPROVED <16 APR 2003 by GolinoFR>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: EXPORT CREDIT GENTLEMEN'S AGREEMENT - RESULTS OF MAY 12-13 PRINCIPALS' MEETING
TAGS: EFIN, ETRD, EEC
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006